Forging a New Path:
Opportunities to Lead on Small Business Health Insurance

MPA/MPP Capstone Paper

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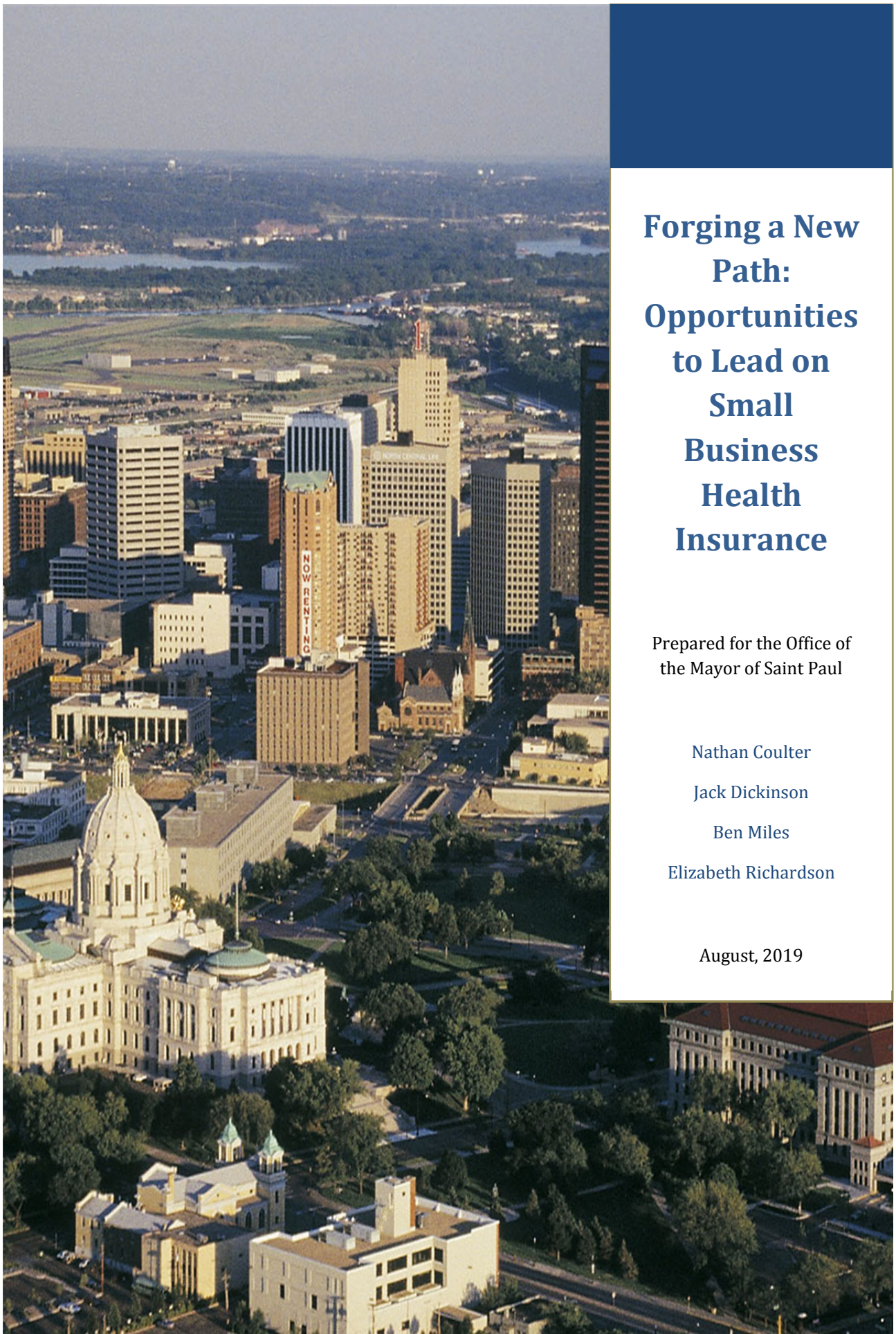

Forging a New Path: Opportunities to Lead on Small Business Health Insurance

Prepared for the Office of the Mayor of Saint Paul

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Acknowledgements

We appreciate Mayor Melvin Carter's focus on the high cost of small business health insurance and the challenge it presents for the small businesses that bring economic health and a unique character to our communities. We are honored to have been chosen to assist the Mayor and his staff to better understand how the City of Saint Paul can create positive change for business owners and their employees. We also appreciate the support and feedback of our instructors, Drs. Kevin Gerdes and Robin Phinney.

Executive Summary

The Office of the Mayor of Saint Paul engaged four students at the Humphrey School of Public Affairs at the University of Minnesota to research the viability of a small business health insurance pool. It was believed that creation of a citywide insurance pool for small businesses could reduce costs.

Based on our research, our findings suggest that it is not viable for the City of Saint Paul to pursue the creation of a small business health insurance pool due to current legal, political, and economic conditions and realities. However, we understand that the larger goal of this research was not just to evaluate the viability of insurance pools but to examine the landscape for opportunities to lessen the burden of health care costs for small businesses while maintaining consumer protections and quality of the plans offered.

We have identified two opportunities for the Mayor and his office to provide leadership to address the problem. We found in our interviews with small business owners that there is a need for more clarity and quality in the information available to business owners when they choose their plans. The creation of an Information Hub, or supporting the establishment of one by a third party, is a way that the City can directly address this specific issue. Additionally, there is an opportunity to create positive change by leading a coalition of cities and business association leaders in an effort to change laws at the state level to provide more flexibility for small businesses to access cheaper, high-quality health insurance plans.

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The Opportunity

According to the Minnesota Department of Employment and Economic Development, 37% of all businesses in Saint Paul employ 99 people or fewer. There are 72,568 jobs in small businesses in Saint Paul including full-time and part-time employees. It should be noted that this number refers to positions, and individuals may hold more than one job (DEED 2018).

Our client places importance on small business owners and employees, many of whom are low-wage workers. In the course of developing ordinances instituting the $15/hour minimum wage and earned sick and safe time, it was reported that addressing health insurance costs might be an opportunity to address increased costs overall. To that end, the Mayor's office engaged the Humphrey School to research the viability and potential structures for enrolling small business employees into larger health insurance pools to reduce costs to businesses and employees. Identifying how and by whom these pools are created may have a significant impact in helping Saint Paul ensure more of its citizens are covered by quality health insurance plans.

37% of all businesses in Saint Paul employ 99 people or fewer. There are **72,568 jobs** in small businesses in Saint Paul including full-time and part-time employees.

The impetus for the inquiry was some preliminary indications that the City could create this pool and drive down costs substantially for businesses that took advantage of the plans, given there were enough participants. The underlying context for this information was changes in Affordable Care Act (ACA) regulations of Association Health Plans (AHPs) that opened the door for much larger pools than were previously allowed by law. As we describe further in this document, this and the successful court challenge to the Executive Order that deregulated AHPs, creates a climate of ambiguity around the viability of these pools.

In response to concerns about rising health insurance costs, and questions about the possibility of Saint Paul creating a small business health insurance pool, we understood the problem as that of first needing to learn about the current legal, economic and political landscape and context. More specifically, we defined the problem as: *The City of Saint Paul has limited information about viable structures for small business pooled health insurance.*

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Based on our conversations with the City of Saint Paul, we assume quality health insurance is important to employees and small businesses in the city. It is important to note, all health insurance plans must provide the ten Essential Health Benefits as defined by the ACA ("Employer-Sponsored Health Coverage: The Details", 2019). Also, enrollment into a pooled health insurance structure by small businesses would be voluntary. Thus, it must provide value to

the small business. Indeed, the nature not only of Saint Paul's proposal, but of insurance itself, requires that there be significant enough participation to lower costs. Thus, the question of need and desire for participation is crucial to the overall analysis.

The National Federation of Independent Businesses (2016) Small Business Problems and Priorities Survey shows that the cost of health insurance is the #1 problem for small business owners, with 52% rating it "critical". In fact, health insurance costs have consistently held that rank in the survey since 1986. Additionally, the most recent survey shows that health insurance costs hold that ranking regardless of the number of employees or industry. Given those results, as well as anecdotal information, it seems logical to conclude that there is interest in lower health insurance costs for small businesses. A national survey was conducted in 2015 by the National Small Business Association which may serve as a means for gaining general insight about the small business perspective on health insurance. The survey, found at Appendix D, includes both the survey results and questions that may provide the basis for a more specific survey conducted by and/or for the City of Saint Paul.

__52%__ of small business owners rate the costs of health insurance as __critical__.

Research Questions

Our research project focused on five research questions established by our team and our partners at the Mayor's Office:

1. **What are the required elements of insurance pools for small businesses?**

2. **What are the associated legal, economic, and political considerations that may affect the feasibility of small business health insurance pools?**

3. **What national and local examples serve as case studies of pooled health insurance programs for small businesses?**

4. **What are the small business community's interests and concerns?**

5. **How many small businesses are in Saint Paul and how many people do these businesses employ?**

Methods

To help the Mayor's Office better understand the opportunity provided by pooled health insurance for small business employees, we engaged in a thorough literature review, and consulted a broad range of resources. Our literature review, found in Appendix A, includes the history of association health plans, along with a more detailed exploration of our research findings. Additional resources we consulted include the Minnesota Department of Commerce, Chambers of Commerce, and health insurance industry experts, as well as the monitoring of Federal Court cases. In total, we examined the conceptual, political, economic, and legal landscape in which such a health insurance pool would and could exist.

Our research included interviews with:

- Saint Paul Small Business Owners
- MN Council of Nonprofits
- MN Chamber of Commerce
- MN Department of Commerce
- Other Industry Experts

We engaged in qualitative research through interviews with small business owners to better understand their priorities and willingness to consider the proposed health insurance structure. We interviewed a staffer with the Minnesota Council of Nonprofits to understand their path towards an eventual implementation of health insurance pools for nonprofit organizations, which is a potential structural model for a small business pool. Interview questions and qualitative analysis can be found in Appendix C. We interviewed insurance providers and other health insurance experts to understand their interest and potential concerns in supporting these health insurance pools (Appendix B).

We pass all of this along to the client to create a rich and dynamic conceptualization of the health insurance landscape for small business and identify opportunities for the Mayor to provide leadership in improving the current situation.

Definitions

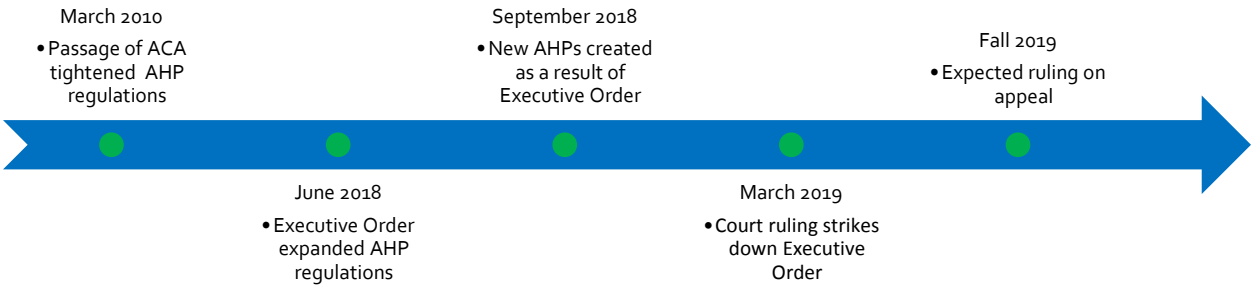
- ***MEWA*** – Multiple Employer Welfare Arrangement
  A separate organization of employers that come together for the purpose of providing benefits to their employees

  MEWAs can provide more benefits than solely health insurance, such as retirement benefits, life insurance, and so forth. Laws regarding which organizations can form a MEWA vary by state.

- ***AHP*** – Association Health Plan
  A subset of MEWAs that exists specifically to provide health insurance

AHPs are a type of MEWA. AHPs allow smaller groups to be treated as a large group for insurance purposes, the intent of which is to lower costs and lower risks by enlarging the pool. Historically, AHPs have had financial and legal challenges, which will be explored in greater detail further on.

Timeline



Timeline of events related to legal challenges of AHP expansion

Considerations

Legal

In June 2018, President Trump signed an Executive Order that expanded the ways in which AHPs could be formed and reduced regulations on the types of plans they could offer. Many parts of this Executive Order were deemed unlawful in a March 2019 district court ruling, and as such, a newly created insurance pool in the form of an AHP created for small business across industries would almost certainly face legal challenges.

The question of legality in the wake of the district court ruling is defined in an article published by the Health Care Administrators Association, where it states "unrelated employers located in the same State are not considered a 'bona fide group', which means that unrelated small businesses cannot band together to form an AHP, such as a Chamber of Commerce" (Association Health Plans, 2). We understand this to mean that geography cannot be the sole basis of commonality for creation of an AHP.

Additionally, Minnesota regulates MEWAs, which include AHPs, and we believe that an AHP formed through a Chamber of Commerce (assuming the appellate court upholds the executive order) would be required to be fully-insured (not self-insured). However, we advise our client to consult with legal counsel. It's also worth noting that laws around MEWAs vary by state, as do requirements of an "association." Minnesota laws are more restrictive than some other states regarding creation of AHPs, though there are several organized by industry.

In short, we find that many of the legal considerations surrounding AHPs face, at best, great uncertainty.

Political

AHPs, as redefined by the Executive Order, operate outside of the regulations instituted by the ACA and are not subject to comparable oversight. Although there is some debate on the extent, there is evidence to suggest that they may undermine the markets created under the ACA, and as such, may continue to face political headwinds that potentially result in greater instability.

The Executive Order allowed AHPs to offer plans that did not meet the standards required by the ACA. They were not required to offer plans to those with pre-existing conditions, were not subject to the ACA's rating rules, and were not required to cover essential health benefits such as maternity care, mental health services, prescription drugs, emergency services, and others (Mardy, Stepanovic, Mattinson, Wethall, 2018). This was an attempt to offer plans with less coverage at a lower cost to employers and their employees.

*In July 2018, Attorneys General from the states of **California, Delaware, Kentucky, Maryland, Massachusetts, New Jersey, New York, Oregon, Pennsylvania, Virginia, and Washington, as well as the District of Columbia** filed suit alleging that Pres. Trump's executive order violated the Administrative Procedures Act (associationhealthplans.com)*

Given the expressed desire to support, rather than undermine the ACA, our findings suggest that establishing an AHP may pose a significant risk.

Economic

AHPs have historically had difficulty maintaining solvency, due in part to continuing increases in the cost of health care and the ability of younger and/or healthier individuals to seek other options. As recently as last year, Arrowhead Procare Pool, an AHP that several local governments in Northeastern Minnesota participated in, was forced to dissolve due to financial insolvency (Mayo 2018). There is a belief that a form of reinsurance might provide the needed financial stability, but funding would be a challenge.

*"There is nothing new about associated health plans; they last about **5 to 7 years before they implode**."*

-Health insurance underwriter

Initial communication with a staff member at the MN Association of Health Underwriters revealed that the lack of current examples of successful AHPs stems from failures in the 1990s due to financial insolvency. He stated, "There is nothing new about associated health plans; they last about 5 to 7 years before they implode." As people file insurance claims, the rates for the group increase. Eventually, healthier people find cheaper rates elsewhere and the AHP is then primarily comprised of people that are high users of health insurance.

This causes the AHP to collapse.

Our research found that establishing and maintaining an AHP would require significant financial and administrative resources, and the City would be required to make a major investment into both.

National and Local Climate

Most (58%) of AHPs launched between the June 2018 Executive Order and the March 2019 court ruling were organized by Chambers of Commerce – local, regional, or state (associationhealthplans.com 2019). The MN Chamber of Commerce (MNCC) began the process of creating an AHP in January 2018 and was close to partnering with an insurance carrier. Following the district court ruling in March 2019, the individual that we interviewed at MNCC is concerned that their AHP proposal may not be lawful, since it encompasses many businesses across several industries. They have put the process on hold in anticipation of the appeals court ruling which is expected this fall.

In 2018 and 2019, the Minnesota Council of Nonprofits (MCN) researched, designed, and readied an AHP, BenefitsMN, set for an October 1, 2019 enrollment opening ("Association Health Plan: BenefitsMN", 2019). MCN initially estimated that the AHP would be ready for the plan to commence in January 2019, but it was delayed due to legal and other general complexities. Our conversations with the AHP lead for MCN suggest that they are less concerned about recent court cases because each member is a nonprofit meeting the pre-Executive Order regulation standard for AHPs.

Our research into other examples in Minnesota and around the country proved enlightening, but provided little in the way of guidance for how the City of Saint Paul might pursue this course.

Findings

Based on the Federal District Court ruling in March 2019, the political climate, and economic considerations, our findings suggest that it is ***not viable*** *at this time for the City of Saint Paul to create a single pooled health insurance plan to serve all small businesses in the city. Our findings do suggest* ***significant opportunities for leadership*** *on reducing the cost of health insurance for the City, and for the Mayor specifically.*

Opportunities for Leadership

Recognizing the Mayor's desire to address this important issue, we have identified two opportunities for the Mayor and his office to provide leadership. Our recommendations seek to capitalize on that energy and direct it to efforts that we believe can have a significant impact. They are as follows:

- ***Clarifying the complex*** – Creating a Saint Paul Information Hub to help clarify the complexities of health insurance for small business owners and employees
- ***Forming a coalition for change*** – Bringing together leaders from other cities and groups working on small business health insurance issues to advocate for change at the state level

Information Hub

Our first recommendation was borne out of our interviews with small business owners. We found that there was a diversity of opinion on health insurance options themselves. One unifying thought, though, was the frustration experienced at feeling as though small business owners were practically required to be experts in insurance simply to find the best plan for themselves and their employees. We envision an information hub that could include both a physical presence (an office in which business owners and employees could work with individual staff) as well as an online presence (a City website).

This information hub could serve as a resource for Saint Paul businesses to access. We believe that City staff would be well-equipped to build relationships with businesses, relevant organizations including insurance companies, MNsure, brokers, and others. Depending on how it's executed, staff could even work directly with insurance companies, through this information hub, to design products that meet unmet needs.

We also see this as an opportunity for Saint Paul to serve as a neutral voice for businesses. Rather than working with insurance companies directly, business owners and employees could work with the City to determine their needs and what plans might best meet them. This also takes advantage of the fact that local government is consistently more trusted than state or federal governments to solve problems (Gallup).

*Since 1972, Gallup has consistently found that **two-thirds or more Americans** have trust in their local government.*

Coalition for Change

Steps that can be taken at the state level could make a direct impact on Saint Paul small businesses. By virtue of being the second-largest city in Minnesota, and the state capital, we believe Saint Paul could play a significant role in advocating for change, and building a coalition

with other cities to push for it. We see an opportunity for Saint Paul to step up, elevate small businesses specifically, and show the need for addressing the cost of health insurance.

Small businesses in other cities face these same issues. As mentioned, our research shows that the cost of health insurance has been a consistent problem for small businesses across the country for many years. We envision Saint Paul taking a leading role in organizing other major cities (i.e. Minneapolis, Rochester, Bloomington, Duluth, Mankato), as well as smaller towns to advocate for specific policies. This might also include organizations such as the League of Minnesota Cities, Metro Cities, and the Coalition of Greater Minnesota Cities. One channel for advocacy could be changes to MEWA laws that may allow for the flexibility that AHPs are able to achieve while still upholding the letter and intent of the ACA. Another viable direction is to lobby for the creation of a similar co-op purchasing pool for health insurance as was created for the agriculture industry at the state legislature. The legislative precedent and structural model provide a path to achieve this policy change. Both changes to the MEWA laws as well as the creation of a small business co-op pool would require funding and a coordinated effort to achieve them.

Another avenue to consider pursuing is to advocate for a MinnesotaCare buy-in. Governor Walz has made this a major priority of his, and while it was discussed during the 2019 legislative session, it has not yet been enacted into law. Typically, this debate has centered around low-income Minnesotans and/or individuals who aren't able to afford or purchase insurance through their employer. The perspective of cities advocating for small businesses is one that would be powerful, and heretofore relatively unmentioned, in the debate by virtue of it being a simpler and more affordable alternative. Additionally, building a large and diverse coalition of mostly nonpartisan governments may help to defuse some of the partisan rancor around this proposal.

Areas for Further Research

The City's initial proposal focused primarily on defining the structure and initial investigation of a potential roadmap to the creation of a health insurance pool. The issue of small business health insurance costs is inherently complicated and multidimensional. The scope of this research did not specifically focus on reducing health insurance costs for small businesses. Further research is required to answer specific questions of legality (specifically as they relate to questions of state vs. local precedence). In addition, the legal landscape is in flux while appeals on highly relevant cases to this topic work themselves through the court. Additional research into the small business community is needed to gauge interest and ability to accept potential assistance from the City in whatever form the Mayor may choose.

Conclusion

Our research concluded that it was not viable for Saint Paul to pursue the creation of a small business insurance pool at this time. Because of current legal, political, and economic realities, the legality of such a creation is dubious at best and the current volatile political

climate around the issue makes the expensive and complicated effort to create one unwise. However, we recognize that the reason we were asked to perform this research was to assess the ability of Saint Paul to assist the small business community with high insurance costs. While the creation of a single health insurance pool to potentially serve all small businesses in the city is not a viable option at this time, our findings led us to multiple alternative recommendations.

Our research was conducted using myriad methods in order to provide a robust and thorough description of the context of our findings and to inform useful recommendations to create positive change. From academic literature review to studying the political and legal evolution on the topic of health insurance pools and policy changes, to in-depth interviews with small business owners, industry experts, business associations, and legal experts, our findings are the result of both breadth and depth in our research.

Our study of the current landscape was informative in several ways. Understanding the process that the Minnesota Council of Nonprofits and the Minnesota Chamber of Commerce have gone through, informed our understanding of the legal landscape as well as the appetite for the creation of these small business pools. These case studies will continue to be informative as political and legal conditions change for small business health insurance pools.

Finally, our recommendations stem from the findings of our research and a recognition that the Mayor is looking for ways to lead on this topic. Establishing an Information Hub for small business owners to understand the landscape of health care choices stems directly from our interviews in which the respondents shared their frustration and dismay at the current availability of information on the topic. Furthermore, our research found many innovative solutions in the market aimed at small businesses to assist them on this topic, but a lack of awareness reduces the impact of these potential solutions. Finally, our findings pointed us to recommend that the Mayor can lead to create policy changes by forming a coalition of interested parties to lobby the state legislature. This lobbying effort could be towards making common-sense changes to laws governing MEWAs, creating a co-op style pool for small businesses for health insurance like the one created for the agriculture industry, and/or to advocate for a MinnesotaCare buy-in option for small business employees.

We look forward to hearing how the Mayor uses the findings and recommendations of our research effort to create better conditions for health insurance provision by small business employers and their employees.

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Appendix A – Literature & Research Summary

The literature that we consulted focused on several key areas: the history of small group pooled health insurance, required elements for a pooled insurance structure, the legal, economic, and political implications, and specific efforts on the state and local level. We focused on the most common structure - Association Health Plans (AHPs), a type of a Multiple Employer Welfare Arrangements (MEWAs).

Our analysis of the current legal and regulatory environment suggests that AHPs often become what are referred to as "junk" plans (Aimed Alliance). There have been some efforts at more stable structures through various state and local Chambers of Commerce, and the Minnesota Council of Nonprofits, as well, though there is little evidence of any local governments attempting what Saint Paul has proposed.

Although there are no specific surveys of the Saint Paul small business community, national data from the Small Business Administration, and the National Federation of Independent Businesses suggests that the interest will be there. These surveys suggest that health insurance costs consistently rank as the top priority of small businesses, and that small business employees are just as likely to take advantage of employer-sponsored health insurance as large business employees.

History - Background

The history of AHPs has resulted in, at best, mixed results. AHPs themselves are not new entities, having existed well before the ACA. While some examples have been more successful than others, there is substantial history of fraud and abuse. According to the GAO (2004), fraudulent AHPs resulted in some 200,000 policyholders with over $250 million in unpaid medical debt.

History - 1990s-2000s

We reviewed the landscape for health purchasing cooperatives (HPCs) from the 1990s to early 2000s. In the 1990s, smaller businesses had higher rates of participation in pooled health insurance, and there was substantial geographic variation in the prevalence of pool participation. However, pooling did not seem to have enhanced the accessibility or affordability of insurance to employers (Long & Marquis, 1999). At the time that much of the research took place, it was found that higher premium costs resulted from small employers offering health insurance to their employees. In 2000, a study by the Robert Wood Johnson Foundation on purchasing coalitions and intermediaries for health insurance interviewed 21,545 private employers and ultimately found no correlation between the use of external consultants and the health insurance plan costs (Marquis & Long, 2000). In summary, National Conference of State Legislatures' (NCSL) analysis excerpted from Wicks (2000) was that "there is no convincing evidence the HPCs have had a major impact on reducing the number of uninsured" (Wicks, 2000).

As one example, the Health Insurance Plan of California (HIPC) did not appear to have made a noticeable impact on the number of Californians with insurance (Yeglan, Buchmuller, Smith & Monroe, 2000). The HIPC's experience shows that pooled purchasing alone cannot sustainably lower the cost of insurance enough to increase insurance provision among small firms. The three largest statewide small-group health insurance purchasing alliances—in California, Connecticut, and Florida—did not increase coverage in small business (Long & Marquis, 2001). They also did not reduce small-group market health insurance premiums, or raise small-business health insurance offer rates.

By 2009, 28 states had created state sponsored purchasing cooperatives aimed at creating greater small group coverage for businesses with 50-100 employees (NCSL). However, most of these are no longer operational and by 2016, 17 of these were, according to insurers and states, considered "failed" although six were still active (NCSL). Analyzing reasons for failure on a state by state basis, assessing the condition of state purchasing cooperatives in operation today, and looking for trends could form the basis of future research.

The history of pooled health insurance suggests that many questions remain about the viability of pooled health insurance for small businesses, and there is a need to better understand the specific barriers whether in costs and choices, and what may be possible to lower costs without sacrificing quality and choice. Overall, the history does not support that creating purchasing alliances for small business reduces cost. More recently, the passage of the ACA in 2010 encouraged that states create health insurance pools for small businesses by 2014. The Small Business Health Options Program (SHOP) created under the ACA created a marketplace for small firms (up to 50 employees) to purchase health insurance for employees. However, no insurance carriers are offering SHOP plans in Minnesota as of 2019, according to the MNsure website.

History – Post-ACA

In August 2018, the Department of Labor implemented the changes made in the Executive Order to the nature of AHPs, and began to allow small businesses and sole proprietors to qualify for these plans. In addition, there was a relaxation of existing regulations on coverage requirements on these plans. Under the rule, professional or trade associations were enabled to offer plans that were not required to meet the standards set by the Affordable Care Act (Lucia, Corlette, Goe, Giovannelli, Kona, 2018). Eleven states and D.C. sued to stop the implementation of this expansion of AHPs and in March 2019, a second court struck down the rule as unlawful on several grounds (Keith, 2019).

Multiple Employer Welfare Arrangements (MEWAs) were established as a way to allow small employers to band together to offer plans to their members. These groups often take the form of Professional Employer Organizations (PEOs), and PEOs can offer HR services, payroll services, insurance and retirement plan offerings, and other services to their members. It allowed employers with an aging employee base or with a chronically sick employee, who might otherwise drive up health care costs for the group, to broaden the pool to include more healthy

members and lower the cost of health insurance for the average employer. Each employer got a say in what the plans offered. (Griffin, 2018)

The expansion of AHPs by executive order in 2018, which are a type of MEWA, was an attempt to allow businesses to band together beyond the traditional groups allowed under the Employee Retirement Income Security Act (ERISA). ERISA allowed professional and employee organizations that shared significant "common interest" to offer health insurance plans to their members. The ACA requires that these plans meet the same standards as any other health care plan offered by employers or through the exchanges. (Keith, 2019) The Trump administration's executive order allowed parties to unite based on geography, even across state lines, and by industry, and allowed "working owners" or self-proprietors, to unite as well (Mardy, Stepanovic, Mattinson, Wethall, 2018).

The March 2019 court ruling declared unlawful several provisions of the executive order. First, ERISA established AHPs to be offered by groups that shared a "common interest". The court found that mere geography or shared industry did not meet this standard. Second, the court found that the rule allowing plans that do not meet ACA standards for health care plans to be unlawful. Finally, the court found that the states had standing to sue because the plans reduced their ability to collect revenue and created unfair new regulatory burden on the states. Judge John D. Bates, a George W. Bush appointee, repeatedly called the new rule "absurd" in his ruling (Keith, 2019).

Required Elements

Despite the unsuccessful history of AHPs, we found two organizations in Minnesota that are in the process of setting-up an AHP: Minnesota Council of Nonprofits (MCN) and the Minnesota Chamber of Commerce. Based on our interviews, we were able to identify the necessary elements for health insurance pools for small businesses.

Our findings suggest that many of the pooled health insurance structures require a legal entity or trust plus additional partners such as a third party administrator (TPA) and an insurance carrier. Some entities such as the Minnesota Chamber of Commerce have the structures in-place to do the administration in-house. In addition, the creation of the AHP requires input from lawyers, and an insurance broker. Based on our conversation with MCN, the health insurance carrier is primarily focused on the underwriting and profitability as opposed to the administrative structure.

Another recent example of an organization attempting to create an AHP is the Minnesota Chamber of Commerce (MNCC). The MNCC has a long-standing subsidiary that provides life-insurance and disability insurance products to small businesses. In fact, this subsidiary had provided health insurance up until about 20 years ago. Thus, the MNCC has the administrative structure and expertise in-place to set-up and implement an AHP. Based on our conversation, the MNCC recommends the following key elements for creation of an AHP: an attorney, health insurance carrier (they had a RFP), marketing staff and administration (in-house or another entity). MNCC also said that it is important to establish relationships with insurance brokers and agents as these are the people that have guided small businesses.

MNCC began the process of creating an AHP in January 2018 and was close to partnering with an insurance carrier. Due to the Federal court ruling in March of 2019, the MNCC has identified their AHP plan to be illegal and has put the process on-hold until the appeal court ruling in September or November 2019.

Using MCN as an example, we have identified a potential "roadmap" for construction of an AHP. The MCN has full-time staff dedicated to the creation of the AHP and has created a trust, BenefitsMN, which will also have staff. This 501(c)9 organization will then engage a Third Part Administrator (TPA) and health insurance carrier. Also, BenefitsMN will also have to engage carriers of ancillary benefits such as dental, vision and Cobra coverage. Note, the MCN and BenefitsMN staff is additional costs related to providing an AHP. Thus, the employee health plan premiums must cover costs to BenefitsMN, MCN, TPA, and a health insurance carrier. Finally, the health insurance carrier is charged with setting the pricing to attract people to the AHP and generally the price in Year 1 starts at a discount to the open market for small businesses. If legally possible, the City of Saint Paul, would need to find a trusted and capable organization to create and implement the AHP. Lastly, any AHP that is designed will need to be approved by the Minnesota Commerce Department ("Association Health Plans in Minnesota", 2018).

Legal, Economic, and Political Considerations

The executive order of June 2018 allowed AHPs to offer plans that did not meet the standards required by the ACA. They were not required to offer plans to those with pre-existing conditions, were not subject to the ACA's rating rules, and were not required to meet the essential health benefits package (maternity care, mental health services, prescription drugs, emergency services, and others) (Mardy, Stepanovic, Mattinson, Wethall, 2018). This was an attempt to offer plans with less coverage at a lower cost to employers and their employees.

History of AHP failure was also substantiated from content published by NCSL regarding a pooled structure of the health insurance created based on the ACA, a co-op. "By early 2009, at least 28 states had created or authorized such cooperatives by state law or regulation. Quite a few of these programs are no longer operational. Most of these initiatives have been aimed at assisting small businesses with up to 50 or 100 employees to join together with others to create a larger purchasing pool" (NCSL, NP). Notwithstanding efforts through the ACA to create an avenue for small businesses to purchase more affordable quality health insurance, market conditions have been such that no one solution has emerged.

National and Local Examples

Our research into the landscape of pooled health insurance structures in Minnesota found there is a history of AHPs, but revisions in the health care laws result in a constantly evolving marketplace. According to the Minnesota Commerce Department, more than 80 associations operate as MEWAs in Minnesota and many of them are AHPs ("Association Health Plans in Minnesota", 2018). These AHPs vary in size and some have been in-place for decades.

Please note MEWAs provide other employer benefits that are not necessarily health benefits, while AHPs are solely for health benefits. Based on our conversations with the Department of Commerce, there was not a breakdown of these entities and it was believed that more detailed information would have had minimal benefit to our research. We focused our research into the landscape of Minnesota on a pooled structure that is current with the new health laws and marketplace as well as one that would be viable for the size of the City of Saint Paul small business community.

Additionally, our research has uncovered that AHPs have been reimagined after new ACA regulations have addressed challenges with fraud and insolvency. AHPs have been formed by unions, professional associations/organizations, and Chambers of Commerce. According to the MN Commerce Dept website, there are five AHPs in Minnesota: Land O Lakes (Co-op for affiliated farmers); MADA (Minnesota Auto Dealers Association); Northwest Eye Clinic Health Plan (just started so no forms have been filed yet); TLC Companies (a transportation company PEO or "administrative employer"); and Tealwood Enterprises (senior living communities).

As part of the 2017 reinsurance bill passed in the Minnesota congress, there was a law creating agricultural cooperative health plans (ACHPs). This allows certain farmers to create a pool for a self-insured health plan and was lobbied for by farm groups including the Minnesota Farmers Union. Due to this change in Minnesota law, Land O Lakes created an ACHP in 2018 (Star Tribune, 2018).

If the Minnesota Chamber of Commerce AHP goes forward, it is anticipated that there will be 10,000 employees enrolled over the first 18 months. Overall the MNCC is comprised of about 2,300 employers and 500,000+ employees across the state and 80% of its members are small businesses. MNCC identified that health insurance costs was one of the main issues for its members because rates continue to increase and providing health insurance was critical for recruiting and retaining talent.

In 2018 and 2019, the Minnesota Council of Nonprofits researched, designed and readied an Association Health Plan, BenefitsMN, set for an October 1, 2019 enrollment opening ("Association Health Plan: BenefitsMN", 2019). MCN has identified about 13,000 eligible employees based on their survey.

MCN surveyed its 13,000 eligible employees and 549 employers in April 2018 ("Association Health Plan: BenefitsMN", 2019). The MCN survey found that 36.5% of the employers do not offer group health insurance ("Association Health Plan: BenefitsMN", 2019), which provides some initial background that suggests many employers in the City of Saint Paul are also not providing health insurance. Also, it is important to note that many of the non-profits that do not offer health insurance have a limited number of employees (median size is 2.5) ("Association Health Plan: BenefitsMN", 2019). This could affect the viability or value-add of a pooled health insurance structure – if the greatest impact of a pooled health insurance plan effects only a limited number of employees. Yet, 70% of the respondents were highly interested (8 or higher on a scale from 1 – 10) in a MCN health plan ("Association Health Plan: BenefitsMN", 2019). Thus, if this data also somewhat mirrors the City of Saint Paul, it suggests that there is sufficient interest and need.

MCN initially estimated that the AHP would be ready for the plan to commence in January of 2019, but it was delayed due to the legal and general complexities. They have worked closely with an attorney, an insurance broker and a health insurance carrier (Medica). The MCN timeline shown on their website is as follows:

Spring 2018: Interest survey sent to member organizations

August 2018: First trustee meeting

Fall 2018: Survey #2 and census information sent to nonprofit organizations**

Fall 2018: Advisory Committee small group meetings

Fall 2018: Medica secured as insurance carrier

Fall 2018: Plan and network selection, including dental options

Mid-December 2018: Solidify plan and networks with Medica

Winter 2019: Dept of Commerce initial meeting

Winter 2019: Third Party Administrator identified

April - August 2019: Dept of Commerce reviews and approves proposed plan structures

Fall 2019: Organizations receive plan and rate information

October 1 – December 15 2019: Member enrollment occurs

Ongoing 2019: Comprehensive plan information shared with MCN member organizations interested in joining BenefitsMN

January 1, 2020: Benefits renewal date for most MCN members

2020: Begin exploring ancillary benefit options (vision, life)

In the content researched on the MCN website, MCN identified three main reasons for the creation of BenefitsMN (MCN AHP): “1) changes in the health care laws for geographic and industry requirements 2) new competition in MN 3) strong interest from the MCN members” ("Association Health Plan: BenefitsMN", 2019). In the interview with MCN, Margie Siegel, an MCN staffer tasked with leading the AHP effort, stated that there was increased health care competition in 2019 due to the entry of private insurance into Minnesota such as United Health Care and Allina/Aetna. However, it was not apparent that competition has driven rates down or made an AHP more or less feasible. She did note that any MCN created AHP health insurance plan must contain the 10 essential health benefits as laid out in the ACA in order to be acceptable to its members. Furthermore, the AHP should be structured to ensure minimal disruption or undercutting of the ACA as directed by some of the MCN members.

In addition, the MCN plan is fully insured. Nonetheless, MCN is relying on the insurance carrier, Medica, to properly underwrite the plan to ensure solvency. MCN expressed that there is no guarantee of solvency and acknowledged this as the main risk. The concern is that employers with the healthiest users will see rate increases over time and then leave the AHP, resulting in an adverse selection. This is referred to as a “death spiral” in the industry.

According to an AHP advocacy group, Associationhealthplans.com, Chambers of Commerce are the most common entity to organize an AHP since the new executive order in June 2018. Kev Colemen, the president of Associationhealthplans.com, conducted a 2018 study of association health plans that: 1) Are sponsored by Chambers of Commerce 2) Are active and enrolling members 3) Operate under the new June 2018 Department of Labor regulation related to association health plans. This study had a range of findings, and we identified the most noteworthy as follows:

- Out of recently launched AHPs operating under the new regulation, 58 percent are sponsored by a chamber of commerce (whether local, regional, or state chamber)
- 56 percent of the new chamber AHPs have their primary sponsorship through a single chamber of commerce
- 18 AHPs sponsored by chambers of commerce and operating under the new regulation can be found in 10 states, with more AHPs still in planning
- The vast majority of chamber AHPs (94 percent) use third-party insurance companies rather than self-funding their health benefits
- Compared to the overall AHP market, chamber plans were more likely to serve employers between 2 and 50 employees and less likely to extend enrollment to sole proprietors

Furthermore, we have done some research into some specific national models. One such model is in Nevada. We spoke with an insurer representative from Nevada, who works with AHPs, specifically with local Chambers of Commerce Nevada. This representative stated they were not concerned about the Department of Labor Ruling in March 2019 and that they were confident there were no relevant challenges to the AHPs through the Chambers of Commerce in Nevada. Nevada statutes, however, define a “bona fide association” with fewer requirements than MN which may be the reason for the difference in legal opinion.

However, it is important to note the Nevada AHPs were created during the period between June 2018 (executive order making AHPs across industry legal) and March 2019. These AHPs opened at the end of 2018 when it was legal. Our understanding is that these Nevada AHPs will not be legal according to federal law if the appeal of the March 2019 ruling is upheld.

In addition to our research of MEWAs and AHPs, we have also found other examples besides pooled health insurance that may serve some small businesses in Saint Paul including Bind, Insperity, Gravie and C&A Benefits. Given these are already created and in the marketplace, we see our research into these options as part of understanding the overall landscape.

Bind is a model that is a layer between a broker and insurance company. They only work with self-funded employers and require the employer to pay claims as they occur. Bind’s model has lower premiums, then if there is a high cost procedure the employees’ costs go up for the remainder of the enrollment period. Based on our research, the state and the Department of

Labor highly regulate self-funded plans due to increased risk. At this time, Bind is not pursuing a pooled health insurance option and this product is only available one employer at a time.

Insperity is a Professional Employment Organization (PEO) that offers payroll and other administrative services in addition to an insurance product. Again, the Insperity product is on the market and is offered on a business by business basis. This product is a co-employment insurance model that is administered through United Health Care. Insperity created this self-insured model 30 years ago and is the second largest group next to Coca-cola in the UHC system. Insperity insures $2 billion of health care nationwide. According to our interview, the Insperity offering has had annual premium increases of 4%, while industry wide increases are closer to 10 to 12%. Insperity stated that they are the only company offering this type of health insurance option for small businesses nation-wide. Lastly, we do not have enough concrete information on Gravie and C&A Benefits. However, these company names were identified through our interviews as they have provided solutions to some businesses.

These private models may provide solutions for select small business, but don't appear to be a solution for a widespread group. However, we do believe that this is valuable overall information to provide small businesses. Also, this could be an avenue for further research for the City of Saint Paul.

Local Government Role

In local government, best practice often dictates an examination of work done by other localities and in the state and region. This was, in fact, specific direction provided to us by the client. In short, we have not found any evidence of other cities attempting to establish a locally-operated small business health insurance pool, with the exception of some that have been created and are no longer active (Henderson, NV). Examination of information from the League of Minnesota Cities, as well as outreach to the National League of Cities, turned up nothing. Outreach to the National Association of Counties and the National Association of Health Underwriters has not been returned. This is not wholly surprising, particularly in Minnesota, since cities have not generally delved into health insurance policy. Historically, that has been the purview of state or federal governments.

Minnesota, like many other states, did choose to set up its own health insurance exchange as a result of the Affordable Care Act. MNsure, Minnesota's exchange, does provide a potential venue for insurance coverage, though the burden is placed on the individual accessing and paying for coverage, rather than the employer. The Minnesota House of Representatives nonpartisan Research Department (2018) explains that in order to qualify for subsidized coverage through MNsure, individuals must be enrolled in a plan through MNsure, not otherwise eligible for affordable coverage (including employer-sponsored coverage that covers more than 60% of total average health care costs or costs less than 9.86% of household income), meet the income requirements (between 200% and 400% of the federal poverty limit), and file a federal tax return. Since its implementation in 2013, MNsure has experienced technical difficulties, as well as occasionally high premium increases, so it may not be the most desirable solution for small businesses. As of June 2019, small businesses employing 50 or

fewer are directed by the MNsure website to health insurance company websites (MNsure). Additionally, our client has made it clear that they are not interested in pursuing options that would, in any way, undermine MNsure.

Appendix B – Resource List

The following represents a list of contacts from whom the team consulted and/or interviewed for research purposes

Name	Entity/Company	Description
Margie Siegel	MN Council of Nonprofits	AHP Team Lead
Lawrence Thompson	Inventavis	Health Insurance Expert
Stuart Shwiff	Insperity	Co-Employment/PEO Model
Vicki Stute	MN Chamber of Commerce	AHP Leader
Peter Brickwedde	MN Dept of Commerce	AHP Expert
	Gravie	Tech/Health Insurance Co.
Jonathan Sutich	MN Dept of Commerce	MEWAs/AHPs in MN Expert
Brett Fried	SHADAC	Health Insurance Research
	Associationhealthplans.com	AHP Information Hub
Pat Sukhum	Bind	Potential AHP Entity
Bob Stein	MN Association of Health Underwriters	AHP/Health Insurance Expert

Appendix C– Interview Questions & Qualitative Analysis

Small Business Community Interests and Concerns

We interviewed six small business owners and the responses are summarized in the following paragraphs.

A grocer confirmed that from his perspective it is essential to offer health insurance in order to compete for employees in a very tight labor market. His industry already created a pool for grocery employees through their union, the UFCW. Employees of grocers get excellent health care through the union, and the employers negotiate every year for the cost and type of plan the union offers. The grocer then sends the union a pre-established sum of money each month for their health insurance share.

A brewery owner shared that he considered himself fortunate to be in an industry in which people want to work regardless of the quality of the benefits offered. He believed that a small business should offer health insurance plans for its employees only if the margins made it possible. He offered health insurance through Health Partners and believes that his plan actually puts his employees in a larger pool of like business employees from other companies and because of that they enjoy the economies of scale pooling can offer. He also shared that he would be interested in a better, cheaper plan no matter whether it was a larger pooled model or anything else, a common theme among our respondents.

The other two businesses we've interviewed did not offer insurance plans for their employees. One, the owner of a baker, has tried six times in five years to find a plan they could afford, but nothing they found offered plans better than the employees could find on the open market or MNsure exchange. She offers retirement plan matching and a dental plan and was effusive about her desire to be able to offer health insurance, but cannot afford it. She feels that in her industry there is not an expectation of health insurance offerings, but it could be a major competitive advantage to recruit and retain talent if she could. Most of her employees get health insurance through the exchanges, through their spouse, or go without it. The second, a toy store owner, was despondent about the ability of market or the government to offer health insurance plans that met his standards, pooled or otherwise. He has a wife with a pre-existing condition and as such was very appreciative of the ACA protections of that, but added that costs are skyrocketing and the nature of his business and profitability leaves him on and off the ACA exchange qualification, and every year is a hunt for his family for the best plan. He regarded the idea of pooled small business health insurance a "90's solution to a 2020 problem".

To summarize, the positionality of each respondent resulted in very different perspectives on providing health care, finding it, and what good solutions may be in the future. The variation within industries and business sizes resulted in vastly different perspectives on the issue. Unsurprisingly, each would love a cheaper, better option and would be open to it if provided by a municipality or anyone else. Our message to our client will be that some of the small businesses in Saint Paul do not have serious concerns about health care, and do not consider it a crisis, while others are frustrated, skeptical, and cynical. This needs to be taken into consideration if they choose to craft a plan to improve the landscape for these businesses.

The following are the interview questions asked by the team

Small Business Owners

1. How many employees do you have? How many qualify for health insurance through the business?
2. Do you offer Health Insurance? Why? Do you plan on continuing to offer the same plan in the future? If not, what would lead you to do so?
3. What are your considerations of what and how much you offer in your insurance options?
4. How do your employees receive health insurance if not through the business?
5. Where do you look for available plans, or how do you find them?
6. Do you offer employees health insurance through your business for talent recruitment and retention?
7. How important is it for an employer to offer health care plan options for their employees?
8. How important is an employer-based health care plan offering to your employees?
9. What is your level of comfort with a small business pool health insurance model (employees of multiple businesses are pooled together to theoretically bring down cost)?
10. What Medical Plans Does Your Business Offer? (Ex: 25-95%, $500 Deductible, $1500 Deductible, $6500 Deductible, N/A, etc.)
11. What (Medical) Networks Does Your Business Offer? (Ex: HealthPartners Open Access, BCBS Aware, Medica Passport, PreferredOne Complete, N/A, etc.)
12. What Employer Contribution Does Your Business Offer for Monthly Premiums? (Ex: 80% Employee-Only, 25% Dependent, $750 Employee-Only, $500 Dependent, N/A, etc.)

MN Council of Nonprofits

1. How did you get here?
2. Who were the key players in putting this together?
3. How did you become an organizing entity? What is your role?
4. How did you engage the PEO? And Health insurer?
5. How did the employers receive the pooled health structure plan?
6. What are other local and national examples?
7. An AHP has 3 components: PEO, insurer and organizing entity? Is this your understanding?
8. What barriers and challenges did you face?
9. What would you do differently?
10. Do you think the court ruling in March deeming Trump's executive order alters your plan or the landscape in any way? Limiting the definition of an organizing entity and deeming unlawful the un-regulation of insurance plans.
11. Can the city be an organizing entity?
12. What is the AHP structure? (entity, TPA, etc.)

13. Did the June 2018 executive order effect the AHP creation or implementation?
14. Is the AHP in one industry or multiple?
15. How large is the AHP?
16. What are the challenges?
17. What advice you would give to start an AHP?

Appendix D – National Survey

NSBA 2015

SMALL BUSINESS HEALTH CARE SURVEY

NSBA
National Small Business Association

FOREWORD

America's small businesses continue to face huge cost increases and struggle to navigate significant confusion and complexity with the new system. As a follow-up to our 2014 health care survey, NSBA recently surveyed more than 800 small-business owners and is pleased to provide the results of that survey this document, the NSBA 2015 Small Business Health Care Survey. Here you will find data on how America's small businesses are dealing with rising health care costs, what benefits they offer and how ACA is impacting their business.

Celebrating more than 75 years as the nation's first small-business advocacy organization, part of NSBA's mission is to address the needs and represent the concerns of the small-business community. A staunchly nonpartisan and member-driven organization, NSBA conducts a series of surveys throughout the year, including our semiannual Economic Reports. The 2015 Small Business Health Care Survey provides both a snapshot of small business in today's health care landscape, as well as trending data from our past surveys dating from as far back as 2009.

Among the key findings when it comes to health benefits, the NSBA survey found that, while the majority of employers think offering health insurance is very important to recruiting and retaining good employees, just 41 percent of firms with zero to five employees offer health benefits, down from 46 percent one year ago. Overall, 65 percent of small firms (those with fewer than 500 employees) report offering health insurance today, down from 70 percent one year ago. For the smallest firms, those with zero to five employees, the offer rate is less than half that of their counterparts with 20 or more employees.

While cost is the number one driver of whether or not a small business will offer health insurance, the fact that the overwhelming majority of firm owners personally handle their firm's health benefits underscores the need to ease complexity when it comes to offering health benefits.

A whopping 90 percent reported increases in their health plan premiums at their most recent renewal, while 95 percent reported increased health insurance costs over the past five years. The majority expect to continue seeing cost increases in the coming year. In fact, one-in-five small firms report premium increases exceeding 20 percent at their most recent renewal. Over the last five years, 69 percent report increases exceeding 20 percent.

When asked what kind of plans they offer, the majority said they offer a PPO insurance plan as well as dental benefits. With regards to cost-sharing, the majority of small firms report paying for more than half of the cost of these benefits offerings. Among those employers who currently don't offer health insurance, but plan to do so in the coming year cited a desire to provide a competitive compensation package as the primary reason.

Eighty percent of small firms report they plan to purchase insurance through their existing broker in the coming year and just nine percent say they plan to purchase health insurance through the Small Employer Health Options Program (SHOP exchange) or an individual exchange, down from 14 percent last year.

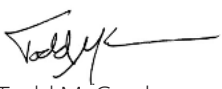
When asked the impact of rising health insurance costs, the majority of small firms increased employees' deductibles. Slightly less than half of small firms were forced to hold off on salary increases and one-in-ten report they had to lay off an employee. There was a modest jump in the number of small firms who said they dropped coverage altogether in the last 12 months from two percent in 2014 to four percent in 2015. Unfortunately, when looking at the next 12 months, seven percent are projecting they will drop coverage.

When it comes to the ACA, the average time it takes per month for small businesses to stay abreast of all the changes to health care is 13 hours per month – that's nearly 4 work weeks every year. One-in-four small firms are purposefully not growing as a result of the ACA.

The 2015 Small Business Health Care Survey was conducted on-line Sept. 16 – Oct. 6, 2015 among 810 small-business owners—both members and nonmembers of NSBA—representing every industry in every state in the nation. Please contact Molly Day at mday@nsba.biz with questions.

We hope you find this survey useful and informative.

Tim Reynolds
NSBA Chair
Tribute, Inc.



Todd McCracken
NSBA President and CEO

FIRM DEMOGRAPHICS

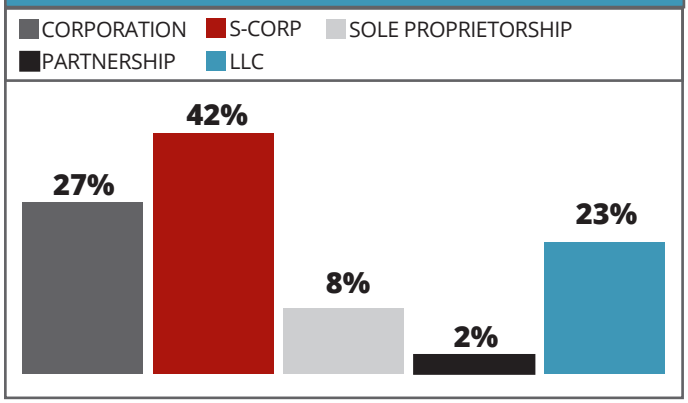
How many total full-time employees are currently employed by your business?

0	6%
1 – 5	35%
6 – 9	13%
10 – 20	16%
20 – 49	15%
50 – 99	7%
100 – 499	6%

About what percentage of your workforce currently works less than 30 hours per week?

None	47%
1% to 20%	37%
21% to 40%	5%
41% to 60%	5%
61% to 80%	2%
81% to 100%	5%

Which of the following best describes the structure of your business?



In what region is your business located?

New England	6%
Mid-Atlantic	20%
Great Lakes	17%
Farm Belt	7%
South	23%
Mountain	14%
Pacific	14%

How many years has your firm been in business?

> 2 years	2%
2 to 5 years	9%
6 to 12 years	15%
13 to 20 years	22%
20 years +	52%

What was your total payroll for the most recent fiscal year?

Less than $100,000	21%
$100,000 to less than $500,000	31%
$500,000 to less than $1,000,000	16%
$1,000,000 to less than $5,000,000	22%
$5,000,000 to less than $25,000,000	4%
$25,000,000 to less than $75,000,000	1%
$75,000,000 to less than $150,000,000	1%
$150,000,000 or more	3%

What were your gross sales or revenues for your most recent fiscal year?

Less than $100,000	10%
$100,000 to less than $250,000	12%
$250,000 to less than $500,000	10%
$500,000 to less than $1,000,000	14%
$1,000,000 to less than $5,000,000	34%
$5,000,000 to less than $25,000,000	14%
$25,000,000 to less than $75,000,000	4%
$75,000,000 to less than $150,000,000	1%
$150,000,000 or more	2%

Which of the following best describes the industry or sector in which your business operates?

Manufacturing	14%
Other Services	13%
Professional	12%
Construction	12%
Scientific and Technical Services	8%
Wholesale Trade	6%
Retail Trade	6%
Health Care and Social Assistance	5%
Information (IT)	4%
Educational Services	3%
Transportation and Warehousing	3%
Agriculture, Forestry, Fishing and Hunting	2%
Finance	2%
Real Estate, Rental and Leasing	2%
Administrative and Support	1%
Public Administration	1%
Arts, Entertainment, and Recreation	1%
Management of Companies and Enterprises	1%
Waste Management and Remediation Services	1%
Utilities	1%
Insurance	1%
Accommodation and Food Services	1%
Mining	0%

HEALTH CARE DEMOGRAPHICS

Offering health insurance as an employee benefit is something the majority of small businesses think is very important in terms of recruiting and retaining good employees, yet fewer firms today report they offer some kind of health-related benefit than just one year ago. For the smallest firms, those with zero to five employees, the offer rate is less than half that of their larger counterparts, those with 20 or more employees.

Cost continues to be the number one factor in determining whether or not a small firm is able to offer his/her employees health insurance.

What is the average age of your employees?

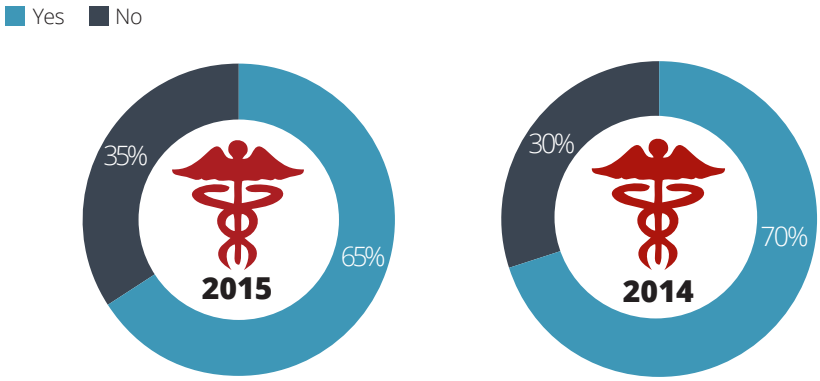
Please rank the following factors in order of most important in determining how or if you offer or purchase health insurance.

1	Cost of plans
2	Benefits offered
3	Coverage
4	Deductibles
5	Out of pocket expenses
6	ACA Requirement
7	Administrative time required
8	Complexity

Please indicate who within your company is primarily responsible for handling your benefits offerings.

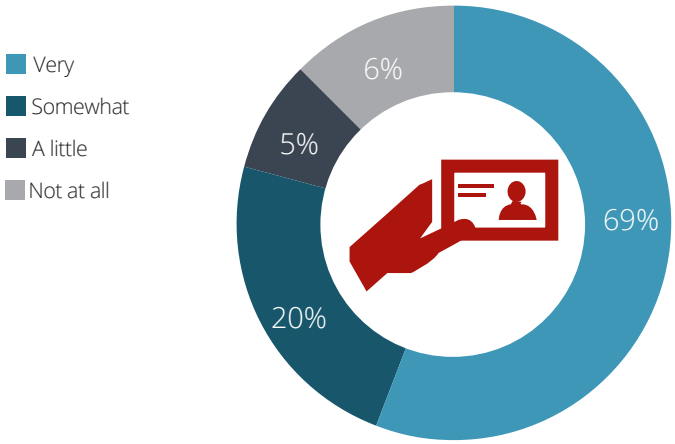
I Am	A member of my staff is	We outsource it
68%	**26%**	**6%**

Do you offer any health-related benefits to your employees?



NUMBER OF EMPLOYEES	YES 2015	YES 2014
0-5 employees	41%	46%
6-9 employees	76%	75%
10-20 employees	73%	86%
20-49 employees	89%	91%
50+ employees	93%	94%

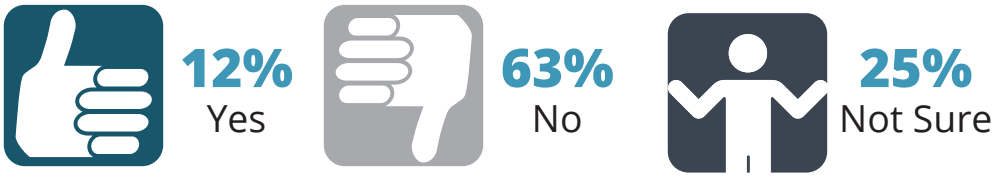
How important do you believe offering health insurance as an employee benefit is in recruiting or retaining top quality employees?



HEALTH INSURANCE OPTIONS AMONG NON-OFFERING EMPLOYERS

Among those employers who currently don't offer health insurance, just 63 percent said they don't have any plans to do so in the coming year. Those who do plan to begin offering insurance cited the desire to provide a competitive compensation package as the primary driver behind why they are planning to begin offering health benefits.

Among those who DON'T currently offer health benefits: Do you have plans to offer any health insurance benefits to your employees in the next 12 months?



> **Just 4% of small firms not offering health insurance point to ACA as a factor in terms of making it easier or cheaper to provide health benefits to their employees.**

Among those who DON'T currently offer health benefits but say they are planning to do so: Why are you going to begin offering health insurance?

I want to provide a competitive compensation package	31%
My company is growing	19%
ACA Requirement	15%
I think my employees will expect it	12%
I think the Affordable Care Act will make it easier	4%
I think the Affordable Care Act will make it cheaper	4%
Other	15%

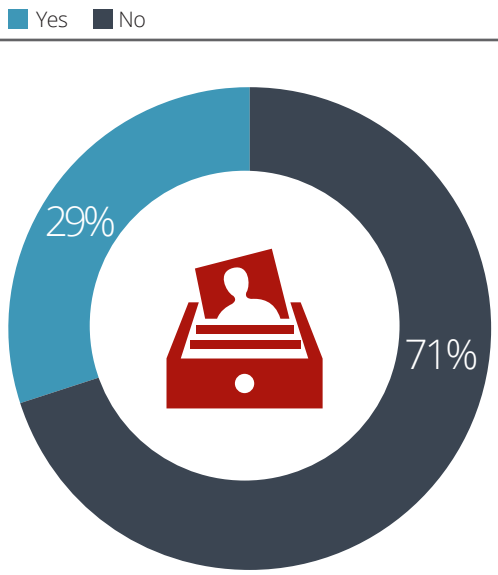
HEALTH BENEFITS OFFERED BY SMALL BUSINESS

Among the small businesses that do offer a health benefits plan, the most commonly offered plan is a traditional insurance PPO plan. Just 29 percent offer more than one health insurance plan. When it comes to cost sharing, the overwhelming majority of small firms report paying for more than half of the cost of their employees' plans, including PPO and HMO insurance, high deductible plans, vision and dental, and prescription and wellness plans.

Please indicate which of the following health-related benefits you offer. (Check all that apply)

	2015	2014
PPO insurance plan	68%	64%
Dental benefits	60%	59%
Vision benefits	43%	42%
HMO insurance plan	29%	30%
High-deductible plan	27%	33%
Health Savings Account	26%	23%
Flexible Spending Account	16%	21%
Wellness programs	16%	17%
Prescription discount card	15%	16%
Health Reimbursement Arrangement	9%	11%
Fitness programs and/or gym memberships	7%	9%
Hospital discount card	1%	1%
Other	5%	5%

Do you offer more than one health insurance plan, i.e.: a lower-cost option and a higher-cost option?



Among employers offering the following benefits: please indicate your average employer contribution toward the following health-related benefits.

	Offer, but don't contribute financially	1- 20%	21-50%	51-75%	76-100%
HMO insurance plan	3%	4%	19%	20%	54%
PPO insurance plan	4%	6%	12%	17%	61%
Vision benefits	29%	7%	8%	8%	48%
Dental benefits	26%	7%	11%	7%	48%
High-deductible plan	6%	6%	9%	20%	59%
Hospital discount card	60%	0%	10%	10%	20%
Prescription discount card	12%	0%	14%	17%	57%
Wellness programs	14%	3%	9%	10%	64%
Fitness programs and/or gym memberships	30%	11%	5%	11%	43%
Health Savings Account	41%	10%	13%	8%	28%
Flexible Spending Account	70%	8%	6%	3%	13%
Health Reimbursement Arrangement	21%	13%	13%	10%	44%

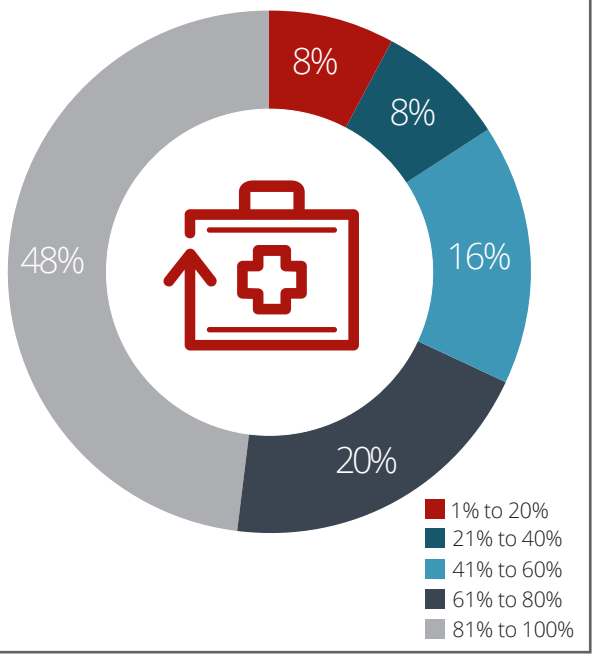
EMPLOYEES COVERED BY EMPLOYER BENEFIT PLANS

Most small businesses offer their health benefits package to full-time employees as well as to their families. Just 11 percent offer insurance to part time employees. For nearly half of all small employers, their insurance plans cover more than 80 percent of their workforce under their health insurance plan. One-third of small firms report covering less than 60 percent of their workforce under their health insurance plan.

Among employers who provide health insurance: please indicate which employee groups you offer health benefits to. (Check all that apply)

Full-time employees	70%
Full-time employees and a spouse	34%
Full-time employees and their families	63%
Part-time employees	11%
Part-time employees and a spouse	6%
Part-time employees and their families	8%

Approximately what percentage of your workforce is covered by your health insurance plan?



"Nearly ½ of small firms provide health insurance to more than 80% of their workers."

HEALTH INSURANCE COSTS

Small employers ranked cost the number one factor in determining whether or not they offer health insurance, and costs continue to rise. A whopping 90 percent reported increases in their health plan at their most recent renewal while 95 percent reported increased health insurance costs over the past five years. The majority expect to continue seeing cost increases in the coming year.

Beyond the health insurance premiums, 55 percent of employers report additional health-care related spending on average of $628 per month, per employee.

At your most recent health insurance renewal, what per-employee changes did you experience in the cost of your health insurance plan?

2015 2014

Increase	Decrease	No Change
90%	6%	4%
91%	5%	3%

How did your average per-employee health insurance costs change over the last five years ?

2015 2014

Increase	Decrease	No Change
95%	3%	2%
96%	3%	2%

Do you expect an increase to the cost of your health insurance premiums for the upcoming year?

2015 2014

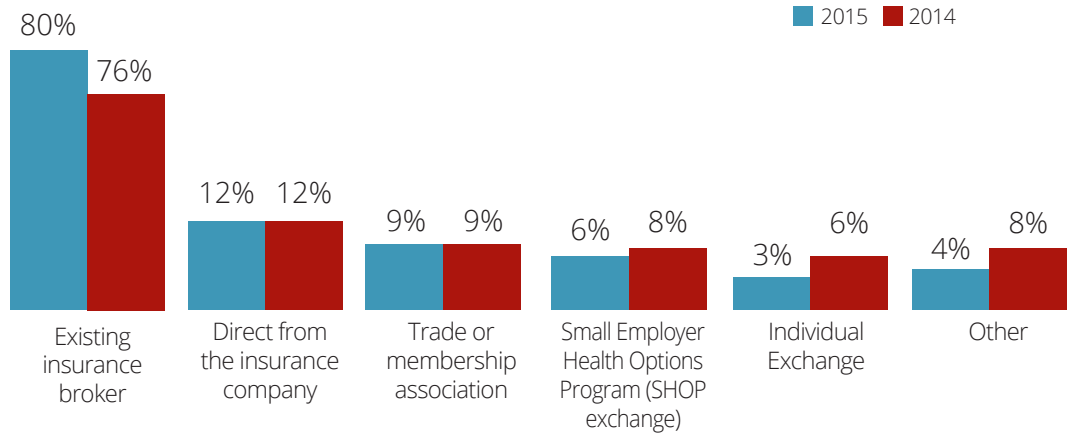
Increase	Decrease	Not Sure
84%	6%	10%
82%	9%	9%

HEALTH INSURANCE PURCHASING

Insurance brokers play an integral role in small-business health insurance with 80 percent of small businesses saying they plan to purchase insurance through their existing broker in the coming year. There were slight drops in small firm plans to purchase health insurance through an ACA exchange from the previous year, no surprise given the complexity with the Affordable Care Act.

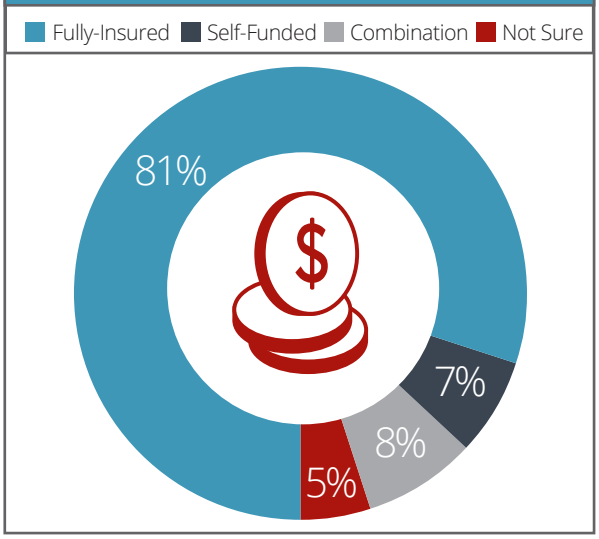
The majority of firms are fully-insured, meaning the insurance company takes on the financial risk of health claims.

Through which of the following sources do you plan to purchase health insurance in the coming year? (check all that apply)



> **Despite claims of ease in signing up, fewer small firms are looking to exchanges than just one year ago.**

Is your health insurance plan fully-insured or self-funded?



Please indicate how your company accesses and utilizes cost and quality information in your health plan. (Check all that apply)

The insurance company provides information directly to anyone enrolled	52%
I provide it to my employees based on information from our insurance company and/or broker	45%
I utilize external resources such as Health Grades	4%
I receive very little information from my insurance company and/or broker about cost and quality of providers	12%
I do not receive or utilize any cost or quality information	11%
Other	3%

IMPACT OF RISING HEALTH CARE COSTS

While the impact of rising health insurance costs have eased in nearly every indicator from 2014 to 2015, given the cost indicators in other questions, these shifts are likely due more do the improving economy. Underscoring the fact that insurance hasn't become cheaper or easier to purchase: the only indicator in this question that increased was "switched insurance carriers," which is typically the first step small firms take when available to try and ease the impact of cost increases.

When asked the impact of rising health insurance costs, the majority of small firms have responded by increasing employees' deductibles. Slightly less than half of small firms were forced to hold off on salary increases and one-in-ten report they had to lay off an employee.

There was a modest jump in the number of small firms who said they dropped coverage altogether in the last 12 months from two percent in 2014 to four percent in 2015. Unfortunately, when looking at the next 12 months, seven percent are projecting they will drop coverage.

What is the impact of health insurance increases on your business? (Check all that apply)

	2015	2014
Less profit available for general business growth	63%	66%
Increased deductible	54%	54%
Held off on salary increases for employees	45%	53%
Increased employee share of the premium	40%	46%
Switched insurance carriers	35%	26%
Reduced employee benefits	32%	40%
Held off on hiring a new employee	25%	34%
Increased prices	20%	22%
Delayed purchase of new equipment	17%	22%
Held off on implementing growth strategies	17%	24%
Reduced workforce/laid off an employee	11%	12%
Dropped insurance	5%	6%
Other	5%	6%

In the LAST 12 months, have you made any of the following changes? (Check all that apply)

	2015	2014	2013
Changed to policy with higher deductible	34%	36%	41%
Changed to policy with higher co-payments	28%	30%	40%
Increased employee's contribution	28%	29%	31%
Reduced benefits offered	19%	19%	23%
Changed insurance company	18%	12%	18%
Switched to HMO or PPO plans	8%	6%	5%
Added a Health Savings Account plan	5%	6%	5%
Dropped coverage	4%	2%	2%
Instituted wellness programs (preventive care)	3%	4%	7%
Other	3%	2%	4%
Switched to full or partial self-insured	3%	2%	3%
Dropped coverage and give money directly to employees to purchase insurance individually	3%	3%	1%
Switched to cafeteria-style program	2%	1%	2%
Instituted managed care	1%	1%	0%
None of the above	37%	33%	29%

In the NEXT 12 months, are you considering making any of the following changes? (Check all that apply)

	2015	2014	2013
Increase employee's contribution	34%	42%	39%
Change to policy with higher deductible	29%	34%	25%
Change to policy with higher co-payments	27%	32%	29%
Reduce benefits offered	22%	29%	29%
Change insurance company	20%	18%	16%
Drop coverage and give money directly to employees to purchase insurance individually	12%	23%	7%
Drop coverage	7%	15%	4%
Add a Health Savings Account plan	6%	8%	8%
Other	5%	6%	4%
Switch to full or partial self-insured	5%	6%	4%
Institute wellness programs (preventive care)	2%	4%	3%
Switch to HMO or PPO plans	2%	3%	2%
Switch to cafeteria-style program	2%	3%	2%
Institute managed care	1%	1%	0%
None of the above	38%	23%	30%

SMALL BUSINESS & THE AFFORDABLE CARE ACT

Given the growing awareness and public discourse over the Affordable Care Act, more small businesses say they clearly understand the law's impact on their business than had previously. That said, the majority, 51 percent, still have a limited to no understanding whatsoever. The average time it takes per month for small businesses to stay abreast of all the changes to health care is 13 hours per month – that's nearly 4 work weeks ever year!

Further underscoring the confusion surrounding the ACA: one-third of small firms aren't aware of a requirement that, starting in 2016, businesses may have to report to the IRS on their 2015 insurance offerings to ensure compliance with the individual and employer mandate.

On the positive side, when asked to indicate their experience with various provisions of the ACA, the negative responses in every category dropped from 2014 to 2015. There was also positive movement when asked about how they're restructuring their workforce due to the ACA in that there are fewer major shifts occurring. That said, one-in-four still are not growing due to the ACA.

How significantly do you believe the Cadillac Tax will impact your business?

Very significantly	12%
Somewhat significantly	14%
Not very significantly	12%
No impact	26%
I have not calculated it	7%
I have no idea what this is	31%

How well would you say you understand how the Affordable Care Act is impacting your business?

2015 2014

49% Clear Understanding **42%**

42% Limited Understanding **46%**

9% No Understanding **12%**

If you qualify for the small-business health care tax credits, how much have or will they help your business?

Significantly	6%
Moderately	5%
Just a little	5%
Not at all	15%
I do not qualify	26%
I'm not sure if I qualify	32%
I don't offer health insurance and don't plan to	12%

Please estimate the time and cost it takes your company to stay compliant with the Affordable Care Act.

13 average hours spent

$1,116.05 average cost per month

Are you aware that, under the Affordable Care Act, businesses in 2016 may have to begin reporting to the IRS on their 2015 insurance offerings to ensure compliance with the individual and employer mandate?

Yes I am aware and I will have to complete one of these reports	24%
Yes I am aware but I do NOT have to complete any of these reports	40%
No - I am not aware of this reporting requirement	36%

SMALL BUSINESS & THE AFFORDABLE CARE ACT

Are you restructuring your workforce in any way due to the Affordable Care Act? (Check all that apply)

	2015	2014
Not growing	25%	33%
Subcontracting more projects out instead of hiring on employees	12%	15%
Hiring more part-time versus full-time employees	12%	14%
Reducing hours for existing employees	7%	10%
Other	6%	6%
I am not restructuring my workforce due to the Affordable Care Act	59%	48%
May utilize a Professional Employer Organization (PEO)	3%	2%

"1-in-4 small firms are purposefully not growing as a result of the Affordable Care Act."

Please indicate what your first-hand experience has been to date with the following provisions of the Affordable Care Act.

	2015				2014			
	Positive	Neutral	Negative	No Experience	Positive	Neutral	Negative	No Experience
Individual Exchanges	8%	11%	20%	61%	5%	6%	28%	62%
SHOPs (small business exchanges)	2%	9%	14%	75%	3%	5%	18%	74%
Small business health care tax credits	4%	11%	15%	70%	4%	9%	21%	65%
Premium assistance tax credits	2%	7%	12%	79%	3%	5%	18%	74%
Healthcare.gov website	7%	13%	24%	57%	3%	7%	32%	57%
State-run exchanges	4%	12%	18%	66%	4%	7%	19%	71%
Federal exchange	3%	10%	18%	69%	3%	10%	18%	69%

METHODOLOGY

The 2015 Small Business Health Care Survey was conducted on-line Sept. 16 – Oct. 6, 2015 among 810 small-business owners—both members and nonmembers of NSBA—with fewer than 500 employees representing every industry in every state in the nation.

NSBA 2015

SMALL BUSINESS HEALTH CARE SURVEY

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